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DAN E. ARNETT  
CHIEF OF STAFF

180716

July 12, 2006

**VIA HAND DELIVERY**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

2006 JUL 12 PM 2:51  
FBI

Re: Annual Review of Purchased Gas Adjustment and Gas Purchasing  
Policies of Piedmont Natural Gas Company  
**Docket No. 2006-4-G**

Dear Mr. Terreni:

Enclosed for filing please find the original and sixteen (16) copies of the Settlement Agreement in the above referenced matter. Please date stamp the extra copy enclosed and return it to me in the envelope provided.

Thank you very much for your assistance. Please let me know if you have any questions.

Sincerely,

C. Lessie Hammonds

CLH/pjm  
Enclosures

cc: David Carpenter  
Tom Skains  
James H. Jeffries IV, Esquire  
Scott Elliott, Esquire

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-4-G**

FILED  
JUL 12 PM 2:51  
SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION

IN RE:

Piedmont Natural Gas	)	
Company's Annual Review of	)	<b>SETTLEMENT AGREEMENT</b>
Purchased Gas Adjustment and	)	
Gas Purchasing Policies.	)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by South Carolina Public Service Commission ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2005 through March 31, 2006 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest;

WHEREAS, following those discussions the Parties have each determined that their interest and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of David R. Carpenter, direct testimony and exhibits of PNG witnesses Keith P. Maust and Ann H. Boggs, and the pre-filed rebuttal testimony of PNG witness Ann H. Boggs, without objection, change, amendment, or cross-examination by the Parties. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony, exhibits and pre-filed surrebuttal of ORS witnesses Roy H. Barnette and Carey Flynt, without objection, change, amendment, or cross-examination by the Parties. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and with the adoption of the accounting adjustments proposed by Roy H. Barnette described herein, the hearing record then before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent, (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period, and (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

4. The Parties agree to adopt the following accounting adjustments set forth in the testimony of Roy H. Barnette for PNG's deferred cost of gas account #253.04 so as to adjust the

account balance shown in PNG witness Ann H. Boggs's testimony from an under-collection of (\$15,133,277) to the adjusted balance shown in ORS witness Roy H Barnette's testimony of an under-collection of (\$14,874,018):

- a) a reduction to PNG's under-collection of \$7,876 to correct the off-system sales used in the December 2005 Billed/Filed calculation;
- b) a reduction to PNG's under-collection of \$12,053 to correct the off-system sales used in the January 2006 Billed/Filed calculations;
- c) an addition to PNG's under-collection of \$10,123 to correct the dekatherms used in the April 2005 Proration Adjustment calculation;
- d) an addition to PNG's under-collection of \$68,005 to correct the dekatherms used in the September 2005 Proration Adjustment calculation;
- e) an addition to PNG's under-collection of \$6,519 to correct the dekatherms used in the October 2005 Proration Adjustment calculation;
- f) a reduction to PNG's under-collection of \$57,242 to correct the dekatherms used in the November 2005 Proration Adjustment calculation;
- g) an addition to PNG's under-collection of \$18,913 to correct the Negotiated Loss calculation for the month of April 2005;
- h) an addition to PNG's under-collection of \$7,203 to correct the dekatherms used in the January 2006 Secondary Market Sharing Adjustment calculation.

5. The Parties agree to the method proposed by PNG by which it calculates, accounts for and recovers uncollectible gas costs effective November 1, 2006. PNG proposes the actual commodity cost of gas associated with uncollectible accounts will become a component of the deferred account #253.04. The balance of the uncollectible accounts expensed, including the

company's margin, will be recovered through their Rate Stabilization Act ("RSA") filing. The requested change will allow PNG to recover actual expenses rather than estimates.

6. The Parties agree that PNG's PGA should be modified to reflect hedging activity results in the deferred account #253.04. This modification will be accomplished by monthly transfer of hedging gain or loss to the deferred account.

7. The Parties agree with ORS's recommendation that the interest rate on PNG's deferred account #253.04 be fixed at 7% effective November 1, 2006.

8. The Parties agree that the Review Period liquefied natural gas ("LNG") inventory adjustments for the Charlotte LNG facility and the Four Oaks LNG facility addressed in ORS testimony shall be accepted for purposes of calculating PNG's end-of-period LNG inventory levels and that PNG shall ensure the timely and accurate reconciliation of physical LNG inventory levels with the inventory levels of LNG recorded in PNG's gas cost accounting system.

9. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

10. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

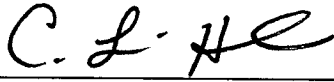
11. This agreement shall be interpreted according to South Carolina law.

12. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGES FOLLOW]

WE AGREE:

**Representing and binding the Office of Regulatory Staff**



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C. Lessie Hammonds, Esquire

Jeffrey M. Nelson, Esquire

**Office of Regulatory Staff**

1441 Main Street, Suite 300

Columbia, SC 29201

Phone: (803) 737-0800

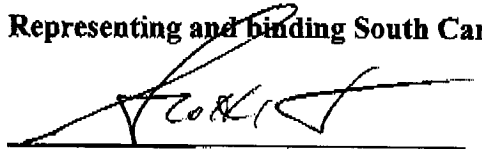
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Email: [lhammon@regstaff.sc.gov](mailto:lhammon@regstaff.sc.gov)

[jnelson@regstaff.sc.gov](mailto:jnelson@regstaff.sc.gov)

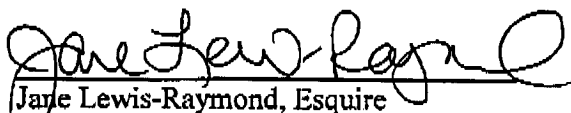
SCEUC has not independently reviewed (i) PNG's gas purchasing policies and practices, (ii) whether PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period and (iii) whether PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders. SCEUC's review of these matters is limited only to the pre-filed testimony of PNG's and ORS's witnesses. Although SCEUC has not conducted an independent investigation into the prudence of PNG's gas purchasing policies and practices, SCEUC is aware that ORS has conducted such an investigation, and by executing this Settlement Agreement, SCEUC hereby supports the positions and conclusions of ORS as set forth in the pre-filed testimony of ORS witnesses Roy H. Barnette and Carey Flynt.

**Representing and binding South Carolina Energy Users Committee**

  
\_\_\_\_\_  
Scott Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC 29205  
Phone: (803) 771-0555  
Fax: (803) 771-8010  
Email: [selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)

WE AGREE:

**Representing and binding Piedmont Natural Gas Company, Inc.**



Jane Lewis-Raymond, Esquire

Piedmont Natural Gas Company, Inc.

4720 Piedmont Row Drive

Charlotte, NC 28210

Phone: (704) 731-4261

Fax: (704) 365-8515

Email: [jane.lewis-raymond@piedmontng.com](mailto:jane.lewis-raymond@piedmontng.com)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2006-4-G**

SO. CAROLINA  
PUBLIC SERVICE  
COMMISSION  
JUL 12 PM 2:51  
Piedmont


IN RE:	)	
Annual Review of Purchased Gas Adjustment and	)	<b>CERTIFICATE OF SERVICE</b>
Gas Purchasing Policies of Piedmont Natural Gas	)	
Company	)	

This is to certify that I, Pamela J. McMullan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **Settlement Agreement** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

**David Carpenter**  
**Tom Skains**  
Piedmont Natural Gas Company, Inc.  
PO Box 33068  
Charlotte, NC 28233

**James H. Jeffries, IV, Esquire**  
Moore & Van Allen, PLLC  
100 North Tryon Street, Ste. 4700  
Charlotte, NC 28202

**Scott Elliott, Esquire**  
Elliott & Elliott, P.A.  
721 Olive Street  
Columbia, SC 29205

  
\_\_\_\_\_  
Pamela J. McMullan

July 12, 2006  
Columbia, South Carolina